

No. 15,111

In the
United States Court of Appeals
For the Ninth Circuit

DICK E. STEARNS and THE D. E. STEARNS
COMPANY, a partnership composed of Dick
E. Stearns and Ellen Belson Stearns,

Appellants-Appellees,

vs.

TINKER & RASOR, a corporation JOHN P.
RASOR and LEO H. TINKER,

Appellants-Appellees.

Opening Brief of Tinker & Rasor, John P. Rasor
and Leo H. Tinker in Support of Their Appeal

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I.

INTRODUCTION

This cause is before this Court for the second time. Plaintiffs below (Dick E. Stearns and the D. E. Stearns Company, a partnership), appeal from Paragraphs I and III of the Judgment of the District Court (R. 934) dismissing their complaint and awarding costs in the trial court to defendants. Defendants below (Tinker & Rasor, a corporation, John P. Rasor and Leo H. Tinker), appeal from Paragraphs II and IV of the same Judgment (R. 934) dis-

missing their counterclaim for damages and awarding Plaintiffs costs for the first appeal.

This brief is in support of Defendants' appeal from Paragraphs II and IV of the Judgment.

Because both sides have appealed and because this is the second of two appeals, it is deemed advisable to outline briefly the history of the case.

For convenience, certain terms are used as follows:

"Plaintiffs" is used to designate the parties Dick E. Stearns and the D. E. Stearns Company, while "Defendants" is used to designate the parties Tinker & Rasor, John P. Rasor and Leo H. Tinker.

"First Judgment" designates the Judgment rendered September 23, 1952 (R. 32, 33).

"First Appeal" designates Appeal No. 13,634 which was taken from the First Judgment.¹

"Second Judgment" designates the Judgment rendered March 8, 1956, dismissing the Second Amended Complaint, dismissing Defendants' Counterclaim, etc. (R. 933-935).

"Second Appeal" designates the present appeal, No. 15,111, which is from the Second Judgment.

This is a patent infringement suit in which several issues are raised by the pleadings, including validity of the patent (Stearns Patent No. 2,332,182, hereinafter referred to as the "Stearns Patent"), infringement of the patent by Defendants, and misuse of the patent by Plaintiffs.

On September 23, 1952, the District Court found Claims 1 and 7 (the only claims in issue) to be invalid for lack of invention (Findings Nos. 25 and 26, R. 31); made no findings on the other issues (see Finding No. 27, R. 31); and entered its First Judgment.

1. By Stipulation of the parties, subject to the Rules of this Court, the printed record on the First Appeal may be used in this present appeal (R. 1022). This printed record, consisting of three volumes, is supplemented by a fourth volume which is paged consecutively with the first three volumes.

ment dismissing the Second Amended Complaint (R. 32, 33). On the First Appeal, No. 13,634, this Court reversed the holding of invalidity and remanded the case for determination of the other issues. The opinion of this Court is reported at 220 F.2d 49; the mandate is printed in the record at R. 911-913.

Further proceedings in the nature of oral arguments were had before the District Court on November 10, 1955 (R. 937-1013). Subsequently the District Court entered Findings of Fact (R. 914-929, modified at R. 932, 933), Conclusions of Law (R. 930, 931, modified at R. 932-933), and the Second Judgment (R. 933-935). The District Court held that four devices manufactured by the individual Defendants infringe the Stearns Patent (Conclusion of Law No. II, R. 930), but that none of the devices manufactured by the corporate defendant infringes the Stearns Patent (Conclusion of Law No. IV, R. 930). The District Court also held that Plaintiffs are not entitled to relief because they have misused the Stearns Patent (Conclusion of Law No. III, R. 930). Judgment was entered accordingly dismissing the Second Amended Complaint (Par. I of Second Judgment, R. 934). Plaintiffs appeal from that portion of the Second Judgment.

The District Court also dismissed Defendants' Counterclaim for damages and awarded Plaintiffs costs on the First Appeal (Pars. II and IV of the Second Judgment, R. 934). Defendants appeal from that portion of the Second Judgment.

II.

STATEMENT OF THE PLEADINGS

The pleadings before this Court are Second Amended Complaint alleging infringement by Defendants of Claims 1 and 7 of the Stearns Patent (R. 3-6); Defendants' Answer and Counterclaim (R. 6-15); and Plaintiffs' Reply to Defendants' Counterclaim (R. 15-17).

Of the issues raised by these pleadings, only the following are relevant to this Appeal: (1) Whether Claims 1 and 7 of the Stearns Patent are infringed by devices manufactured by the corporate defendant Tinker & Razor. (2) Whether Plaintiffs have misused the Stearns Patent. (3) Whether Defendants have been damaged by such misuse. In addition, the question of costs on the First Appeal is involved. This brief concerns only issue (3) and the issue of costs.

A. Jurisdiction.

Jurisdiction of the District Court, insofar as the Second Amended Complaint is concerned, is based upon Section 1338(a) of Title 28, United States Code. Insofar as Defendants' Counterclaim is concerned, jurisdiction is based upon Sections 1338(a), 2201 and 2202 of Title 28, United States Code. Jurisdiction of this Court is based upon Section 1291 of Title 28, United States Code. It is believed that jurisdiction of both Courts on all issues is uncontested.

B. The Parties.

The parties are as follows:

On the Plaintiffs' side, Dick E. Stearns, a resident of Shreveport, Louisiana, and the D. E. Stearns Company, a partnership consisting of Dick E. Stearns and Ellen Belson Stearns.

On the Defendants' side, Tinker & Razor, a corporation of California having its principal place of business in the Southern District of California; and two individuals, John P. Razor and Leo H. Tinker, both residents of the Southern District of California, who operated the business of the corporation as a partnership prior to its incorporation.

STATEMENT OF THE CASE**A. Dismissal of Defendants' Counterclaim for Damages.**

Paragraph V of Defendants' Counterclaim alleges that the defendant Tinker & Razor has been damaged by reason of Plaintiffs' misuse of the Stearns Patent (R. 14). The facts constituting misuse are alleged in Paragraphs XIII, XIV and XV of the Answer, which are incorporated in the Counterclaim by reference (R. 13, 14).

The District Court found (Findings Nos. 49 to 55, R. 926-928), that Plaintiffs have engaged in an illegal tie-in practice as follows: Plaintiffs' product is a holiday detector (a device for inspecting pipeline coatings to locate flaws in the coatings) consisting of patented components and unpatented components. The patented components are an electrode-pusher-carriage combination and the unpatented components are the electrical high voltage generating and signaling apparatus. The latter (the unpatented components) represent the major portion of the cost of a Stearns holiday detector, and are separable and divisible from the patented components. Plaintiffs stifle trade and restrain competition in unpatented materials by reason of their business policy, which is to lease, rather than sell, holiday detectors, hence depriving users of the opportunity to purchase and acquire ownership of detectors; and by reason of the fact that Plaintiffs will lease only complete detectors, including patented and unpatented components, thereby requiring users to accept unpatented components as a condition of obtaining patented components.

The effect of this restrictive tie-in policy is summarized by Finding No. 55 (R. 928), as follows:

"Finding No. 55. The actual, realistic effect of the tie-in policy of the D. E. Stearns Co. is to restrain trade and competition in unpatented materials, more particularly, in electri-

cal high voltage and signaling apparatus and components for holiday detectors.”

Having found a restraint of trade, the District Court adopted Finding No. 56 (R. 928, 929) that the Defendant Tinker & Rasor had been injured and damaged in its business thereby, and held that Plaintiffs are entitled to an accounting (Conclusion of Law No. IX, R. 931), but upon motion of plaintiffs, the District Court deleted Finding No. 56 and Conclusion of Law No. IX upon the ground that no damage had been proved (R. 932, 933).

There is uncontradicted testimony that Defendants have a substantial business in the supply of parts for holiday detectors but have not sold any parts for the leased Stearns detectors (R. 438-441). This, we submit, proves the *fact* of damage, and an accounting should have been ordered to determine the *amount* of damage.

B. The Awarding of Costs to Plaintiffs for the First Appeal.

The mandate of this Court awarded Plaintiffs costs expended in the First Appeal. Such costs have been taxed in the amount of \$2,083.81, of which \$2,056.81 is for printing the record for the First Appeal (R. 913). Paragraph IV of the Judgment of the District Court, from which this appeal is taken, has awarded these costs to Stearns (R. 934).

As developed more fully in the Argument, *infra*, it is Defendants' contention that costs for the First Appeal should abide the outcome of this Second Appeal, chiefly because almost all these costs are for a printed record which is being used in the Second Appeal. If Defendants should prevail in the Second Appeal, they should not be taxed for the cost of printing almost the entire record used in the Second Appeal; some equitable apportionment should be made.

SPECIFICATION OF ERRORS

Defendants, in their appeal, maintain that the following errors were committed by the District Court (R. 1021):

- (1) The District Court erred in dismissing Defendants' counterclaim for damages, and should have ordered an accounting to determine the amount of the damages sustained by Defendants by reason of Plaintiffs' misuse of the Stearns Patent.
- (2) The District Court erred in awarding Plaintiffs costs on the First Appeal, and should have allowed costs on the First Appeal to abide the outcome of the Second Appeal.

V.

SUMMARY OF ARGUMENT

A. Dismissal of Defendants' Counterclaim for Damages.

The District Court found as a fact (Findings Nos. 46 to 55, R. 926-928) that Plaintiffs have been guilty of an illegal tie-in of patented with unpatented materials and that such tie-in has restrained trade in unpatented materials. There is uncontradicted testimony that Defendants sell unpatented materials of the type whose trade is restrained, but have not been able to sell such unpatented materials for use with Plaintiffs' patented materials. This establishes the *fact* of damage, and the District Court should have ordered an accounting to determine the *amount* of damage.

B. The Awarding of Costs to Plaintiffs for the First Appeal.

Costs on the First Appeal (as to which Plaintiffs prevailed) are almost entirely for printing of the record. The same record is used in this Second Appeal, in which Plaintiffs are appellants. If Defendants prevail in the Second Appeal, they are, therefore, entitled to an equitable apportionment of costs of the First Appeal.

ARGUMENT**A. Dismissal of Defendants' Counterclaim for Damages.**

This is an action for patent infringement brought by Plaintiffs for alleged infringement of Claims 1 and 7 of the Stearns Patent. The Stearns Patent confers upon Plaintiffs a legal monopoly of the invention claimed, but no more. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510; 61 L. Ed. 871, 876 (1917). Insofar as Plaintiffs restrain trade within the scope of their legal patent monopoly, we have no quarrel. The dispute arises concerning the fact (so found by the District Court, Findings Nos. 46 to 55, R. 926-928), that Plaintiffs go further than this and employ the Stearns Patent to restrain trade in unpatented materials. This conduct is unlawful (*Motion Picture Patents Co. v. Universal Film Mfg. Co.*, supra, and *Mercoide v. Mid-Continent Investment Co.*, 320 U.S. 661, 665, 666; 88 L. Ed. 376, 381 (1944)). Such unlawful conduct gives rise to an action for treble damages on the part of anyone injured thereby. The pertinent statutory law on the subject is as follows:

Section 3 of the Clayton Act, 15 U.S.C.A. 14, reads in part as follows:

"It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for the sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, * * * on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

Section 1 of the Sherman Anti-Trust Act, 15 U.S.C.A. 1, reads in part as follows:

“Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce * * * is declared to be illegal. * * *”

Section 4 of the Clayton Act, 15 U.S.C.A. 15, reads in part as follows:

“Any person who shall be injured in his business or property by reason of anything forbidden in the anti-trust laws may sue therefor * * * and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney’s fee.”

The Stearns Patent relates to a device known as a “holiday detector”, which is a device for detecting flaws in pipeline coatings. Findings of Fact Nos. 46 to 55, and 57 to 60 (R. 926-929)² accurately set forth the factual situation regarding Plaintiffs’ misuse of the Stearns Patent and their monopolistic practices. Thus, the Stearns Patent is for one component of a holiday detector, namely, an electrode-pusher-carriage combination, hereinafter referred to as the “Patented Apparatus”, (Finding No. 47(a), R. 927). Plaintiffs’ device consists of this Patented Apparatus and certain electrical high voltage generating and signaling apparatus, hereinafter referred to as the “Electrical Apparatus” (Finding No. 47(b), R. 927). The Electrical Apparatus is not covered by the Stearns Patent, but it represents the major portion of the cost of a Stearns holiday detector (Findings Nos. 48, 49, R. 927). The Patented Apparatus represents only a minor portion, not greatly in excess of 10%, of the cost of the complete apparatus (Finding No. 50, R. 927). Plaintiffs follow the policy of leasing, but refuse to sell their holiday detector and they refuse to sell or lease components of their holiday detectors. Plaintiffs will not make their Pat-

2. Finding No. 56 was deleted upon motion of Plaintiffs (R. 932, 933).

ented Apparatus available except in conjunction with and tied to the unpatented Electrical Apparatus. Plaintiffs require their lessees to lease the complete apparatus (Finding No. 51, R. 927, 928). Were it not for this restrictive, tie-in policy of Stearns, it would be feasible to employ electrical apparatus of competitors with the Patented Apparatus of Stearns. Such competition has been stifled because of the unlawful tie-in policy of Stearns. The actual realistic effect of this policy has been to restrain trade in unpatented materials, more particularly, in electric high voltage and signaling apparatus and components thereof (Findings Nos. 53, 54 and 55, R. 928).

Specifically, Mr. Rasor testified that the corporate defendant, Tinker & Rasor, sells any and all parts of holiday detectors; that some of Tinker & Rasor's parts could be used with Plaintiffs' detector; that the sale of parts constitutes a substantial portion of its business; but that Tinker & Rasor had sold no parts for Plaintiffs' detectors (R. 438-441).

It is a necessary inference from these facts (i.e., that Tinker & Rasor sell components of holiday detectors, some of which could be used with Plaintiffs' holiday detectors, yet Tinker & Rasor has not been able to sell such parts for Plaintiffs' detectors), that Tinker & Rasor has been precluded from a substantial amount of parts business by reason of the unlawful tie-in policy of Plaintiffs. This Court may take judicial notice of the fact that in most industries concerned with the manufacture of machinery, there exists a thriving trade in parts for machines. Thus, in the automobile business, only General Motors and its dealers may sell Chevrolet automobiles, but the purchasers of Chevrolet automobiles are free to, and do, in fact, buy tires, batteries, generators, fan belts, etc., for their Chevrolets from sources other than General Motors and its dealers.

The record in this case establishes beyond peradventure, and Finding No. 55 (R. 928) so states, that "The actual, realistic effect

of the tie-in policy of the D. E. Stearns Co. is to restrain trade and competition in unpatented materials, more particularly, in electrical high voltage and signaling apparatus and components thereof for holiday detectors.”

The only question decided adversely to Defendants is the question whether Defendants have proved that they have been damaged. Finding No. 56, adopted by the District Court on December 29, 1955 (R. 928) held that Tinker & Rasor had been damaged. This finding was deleted upon motion of Plaintiffs (R. 932, 933).

We do not contend that Defendants have proved any specific quantum of damages, but we do contend that Defendants have amply proved the *fact* of damage. The District Court should not have deleted Finding No. 56 (R. 928, 929); it should not have deleted Conclusion of Law No. IX (R. 931) holding that Defendants entitled to an accounting; and it should not have dismissed Defendants’ counterclaim for damages.

Bigelow v. R.K.O. Radio Pictures, 327 U.S. 251, 264 90 L.Ed. 652, 660 (1946) establishes the rule that once the *fact* of damage from monopoly or restraint of trade has been established, the *amount* may be proved by inference and circumstantial evidence.

In *American Can Co. v. Ladoga Canning Co.*, 44 F.2d 763, 769, C.A. 7, (1930), the Court stated:

“It is true, plaintiff’s proof of damages depends largely upon what is commonly called circumstantial evidence. To a certain extent this is supplemented by inferences deducible from such evidence. But such proof is sufficient to support a recovery of substantial damages.”

Twentieth Century-Fox Film Corp. v. Brookside Theatre Corp., 194 F.2d 846, 855 C.A. 8 (1952), restates the rule of the *Bigelow Case*, especially where the uncertainty is caused by defendants own tortious acts. The Court pointed out that there must be more certainty with regard to the *fact* of the damage than with regard to the *amount* of damage.

The *fact* of damage has been proved with certainty in the present case.

Other authorities in point are *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 562, 75 L.Ed. 544, 548 (1931); *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359, 71 L.Ed. 684, (1927); *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 425, 426, C.A. 10 (1952). *C-O Two Fire Equipment Co. v. U. S.*, 197 F.2d 489, 494 C.A. 9 (1952) (A Ninth Circuit case in a criminal prosecution for violation of the anti-trust laws, which held that even in a criminal case a conviction may be sustained on the basis of circumstantial evidence and that the government might rely on inferences drawn from a course of conduct.) *American Crystal Sugar Co. v. Mandeville Island Farms*, 195 F.2d 622, C.A. 9 (1952). (Another Ninth Circuit case, stating at page 626:

"Crystal is not in the circumstances in a position to capitalize on the uncertainties or on the difficulties of making proof.")

Lawlor v. National Screen Service Corp., 349 U.S. 322, 329, 99 L.Ed. 1122, 1128, decided in 1955. The opinion, written by Chief Justice Warren, refers at 349 U.S. 329 to

"the public interest in vigilant enforcement of the anti-trust laws through the instrumentality of the private treble-damage action."

The record herein clearly establishes the *fact* of damage. The District Court should have so found and should have ordered an accounting to determine the *amount* of damages.

B. The Awarding of Costs to Plaintiffs for the First Appeal.

On July 2, 1952, the District Court filed its opinion holding Claims 1 and 7 of the Stearns Patent invalid for lack of invention and instructed Defendants' counsel to prepare Findings of Fact, Conclusions of Law and a Judgment (R. 18-25; 108 F. Supp. 237).

Findings of Fact, Conclusions of Law, and a Judgment were prepared, filed and served. In preparing the same, Defendants' counsel observed Rule 7(a) of the Rules of Practice for the United States District Court, Southern District of California. That rule requires counsel for the successful party to prepare findings of fact and conclusions of law which "shall embody the Court's decision." The Court's decision dealt exclusively with the question of invention and made no mention of any other issue (e.g., whether the claims were infringed, and whether there had been misuse of the patent). Accordingly, counsel for Defendants prepared, served and submitted findings which were limited to the issue of invention. Original Finding No. 27 in support of the First Judgment so stated. That finding read as follows (R. 31):

"(27) It being found that the subject matter of said Letters Patent [i.e., the Stearns Patent] does not amount to invention over the state of the art, it is deemed unnecessary to make findings as to infringement, as to the defense alleged by defendants that Claims 1 and 7 are invalid for failure to particularly point out and distinctly claim the invention, and as to the defense alleged by defendants that said Letters Patent has been misused by plaintiffs."

At no time did Plaintiffs' counsel object to the absence of findings on other issues. At no time did Plaintiffs' counsel request findings with regard to other issues. Therefore, in connection with the First Judgment in this cause, counsel for all parties and the District Court were satisfied to limit the findings to formal matters such as identification of the parties, to jurisdiction, and to the question of invention. All were satisfied to reserve findings as to the other issues.

As stated hereinabove, Plaintiffs took an appeal from the First Judgment of the District Court. In so doing, they designated the following portions of the record be printed (R. 584-587): The Second Amended Complaint; the Answer and Counterclaim there-

to; Plaintiffs' Reply to the Counterclaim; the entire Reporter's Transcript of Proceedings at the Trial (which accounts for all but a few pages of Volumes I and II of the present printed record); 30 documentary Exhibits (which account for Volume III of the present printed record); the Opinion of the District Court; Findings of Fact and Conclusions of Law in Support of the First Judgment; the First Judgment; and several documents relating to the First Appeal.

The bill of costs for the First Appeal is as follows (R. 913):

Clerk of District Court.....	\$ 2.00
Printing Record.....	2,056.81
Docket fee, Court of Appeals.....	25.00
	<hr/>
	\$2,083.81

It is evident that almost the entire cost bill is for printing the record.

Defendants have won on the patent infringement and misuse issues, and Plaintiffs have taken a Second Appeal from an adverse judgment of the District Court. In this Second Appeal precisely the same printed record is employed as was employed in the First Appeal, supplemented by about 111 pages of additional record. A brief examination of the printed record will disclose that a major portion thereof relates to the issues of infringement and misuse (as to which Defendants have prevailed).

If Defendants prevail in the Second Appeal, then, in accordance with Rule 25 of the Rules of Practice of this Court, Defendants will be entitled to costs. It would be patently unjust, in such an event, for Plaintiffs to be taxed merely with the cost of printing the fourth volume of the Transcript of Record, consisting of only 111 pages out of a total of 1,022 pages, and for the prevailing party, the Defendants, to be taxed with the cost of printing the remaining 908 pages of the printed record.

Obviously, the only just course of procedure is for the matter of costs on the First Appeal to abide the outcome of the Second Appeal, and for an equitable apportionment to be made at that time.

There is very little law on the subject. In *Jennings v. Burton*, 177 Fed. 603, decided in 1910, plaintiffs had recovered a judgment after the first of two trials on appeal from the first judgment. The Court of Appeals found error and reversed with costs to defendant, which were taxed to and paid by plaintiffs. Then a second trial was had and plaintiffs prevailed again. Plaintiffs sought to tax, as an item of costs, the costs of the first appeal. The trial court held that the costs of the first appeal should not be taxed against the defendant.

At first blush, *Jennings v. Burton* might seem to support Paragraph IV of the Second Judgment herein, awarding costs on the First Appeal to Plaintiffs. However, note that there were two trials in *Jennings v. Burton*; i.e., a first trial resulting in a judgment for plaintiffs which was reversed, and then a second trial in which the plaintiffs prevailed again. In the present case, there has been only one trial, and it is the printed record resulting from that single trial, supplemented to a very small degree by the transcript of the November 10, 1955 arguments, Findings of Fact, Conclusions of Law and Judgment, etc., which constitute the printed record in this Second Appeal. Thus, in effect, the successful party would be forced to pay almost the entire costs of the Second Appeal if Defendants should prevail as to Paragraphs I, II and III of the Second Judgment but should fail as to Paragraph IV.

The only just course is to apportion the costs of the First Appeal equitably in the light of the outcome of this Second Appeal.

CONCLUSION

The Judgment of the District Court entered February 9, 1956 should be modified to the extent that Paragraphs II and IV thereof are reversed; an accounting ordered to ascertain the amount of Defendants' damages sustained by reason of the Plaintiffs restraint of trade in competition in unpatented materials; and the costs of printing the record in the First Appeal should be equitably apportioned between the parties.

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Certificate of Service

Three copies of the within brief were served upon Dick E. Stearns and the D. E. Stearns Company on the 31st day of August, 1956 by mailing three copies to H. Calvin White at 611 Wilshire Blvd., Los Angeles 17, California, attorney of record for the said parties, the same being the last address of said H. Calvin White known to the undersigned, such copies being sent through United States mail, postage prepaid.

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